

Household Credit Market Report



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

H2 2017

The Central Bank of Ireland's *Household Credit Market Report* (HCMR) is compiled by the Financial Stability Division. It collates information from a wide range of internal and external sources to give an up-to-date picture of developments in the household credit market in Ireland.¹ Appendix A provides detailed information on all data sources used in the report. Appendix B provides a glossary of key terms and abbreviations. Figures may differ from previous HCMR versions where revisions have taken place or where underlying data samples have changed.

The report is structured as follows: Section 1 provides an overview of developments in total household debt. Section 2 focuses on the mortgage credit market. Section 3 highlights developments in non-mortgage credit. Box 1 provides an updated view of the *financial resilience* of mortgaged Irish households.

Executive Summary

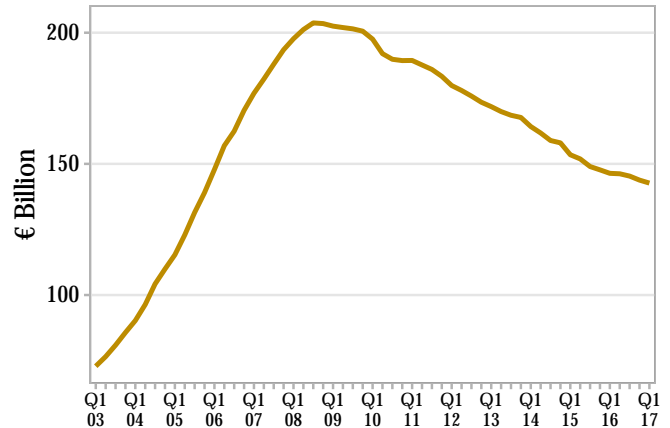
- Irish household debt continued to decline during Q1 2017 and is now 30 percent below the peak in Q3 2008. Nonetheless, indebtedness remains high in a European context.
- Mortgage credit for Principal Dwelling Houses (PDHs) increased at an annual rate of 1.4 per cent in Q2 2017, while loans for Buy-to-Let (BTL) purposes declined at an annual rate of -8.6 per cent.
- New mortgage approvals and drawdowns continued to increase year-on-year in Q2 2017, albeit from a low base. First Time Buyers (FTBs) continue to account for roughly half of all approvals and drawdowns.
- Despite a gradual increase in the share of mortgaged household residential property transactions since 2014, the share of non-mortgaged household transactions remains significant, at just over a third in Q2 2017.
- For outstanding PDH loans, the average interest rates on standard (SVR) or LTV (Loan-to-Value) variable and tracker loans were 3.78 per cent and 1.04 per cent respectively in Q2 2017.
- For new PDH lending, the share by value of Standard or LTV variable rates was 51 per cent in Q2 2017, with 30 per cent of new lending at fixed rates of 1 to 3 years and the remainder at fixed rates of over 3 years.
- The average Standard or LTV variable rate for new PDH lending stood at 3.34 per cent in Q2 2017, while the average rate on fixed rate loans of 1 to 3 years stood at 3.24 per cent.
- For the period January to June 2017, the average originating loan-to-value (OLTV) ratio on new lending for FTBs was 79.4 per cent and the average originating loan-to-income (OLTI) ratio was 3.0. The corresponding figures for Second and Subsequent Borrowers (SSBs) were 67.6 per cent and 2.5 respectively. These ratios increased slightly in comparison to the second half of 2016. On average, FTBs and SSBs borrowed €199,414 and €229,332 respectively during the period January to June 2017.
- Almost 50 per cent of new FTB loans by number were for a loan term of between 30 and less than 35 years during January to June 2017. For SSBs, the most common loan term was under 25 years.
- The overall value of mortgages in arrears of over 90 days past due remains on a downward trend, falling to €15.8bn in Q2 2017. This represents approximately 13.0 per cent of total mortgage balances.
- The percentage of mortgages in negative equity continues to fall, standing at 11 per cent of PDH mortgages in Q2 2017.
- Growth in consumer credit remains positive at 5.4 per cent year-on-year in August 2017, reflecting growth in loans of a maturity of between 1 and 5 years.
- In August 2017, 7 per cent of credit cards exceeded their credit limit, while 36 per cent had balances of between 75 and 100 per cent of their credit limits.

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1 Overview

Figure 1 presents the total outstanding balance of household debt. Household debt stood at €142.7bn in Q1 2017, declining by €3.7bn year-on-year. This is 30 per cent below the peak of €203.7bn in Q3 2008. Total debt in Q1 2017 comprised short-term debt (up to one year or payable on demand) of approximately €4.0bn and long-term debt (greater than one year maturity) of €138.7bn.

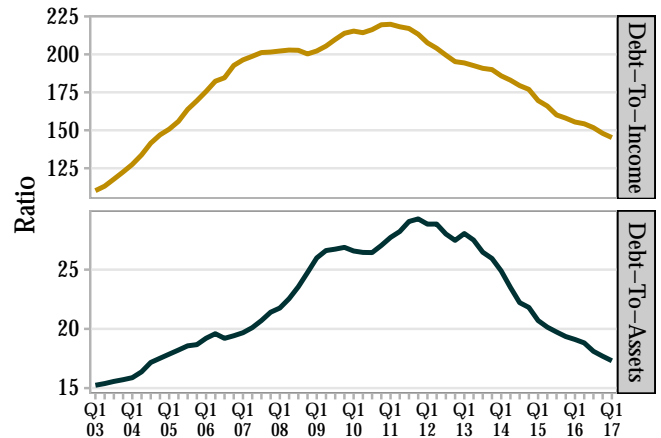
Figure 1. Outstanding Household Debt, Q1 2003-Q1 2017



Source: Central Bank of Ireland, *Quarterly Financial Accounts*.

Figure 2 presents the household debt-to-disposable income ratio (DTI) and the debt-to-asset ratio (DTA). The DTI declined from 155.4 in Q1 2016 to 145.2 in Q1 2017, reaching the lowest level since Q3 2004. In terms of contributions to the 10.3 percentage point reduction in the DTI, an increase in annualised disposable income accounted for about 6 percentage points while a decrease in debt accounted for almost 4 percentage points. A downward trend is also evident in the DTA ratio. It decreased from 19.1 in Q1 2016 to 17.3 in Q1 2017. Both indicators suggest a continued improvement in the sustainability of household balance sheets.

Figure 2. Household Debt-to-Asset and Debt-to-Income Ratios, Q1 2003-Q1 2017



Source: Central Bank of Ireland, *Quarterly Financial Accounts*.

Note: Assets refers to total financial assets plus estimated housing assets. The latter estimate is based on the size and value of the housing stock. Data on the value of housing is obtained from the CSO's 'Residential Property Price Index'. Disposable income is the annualised four quarter moving average of quarterly disposable income adjusted for the change in net equity of households in pension funds reserves.



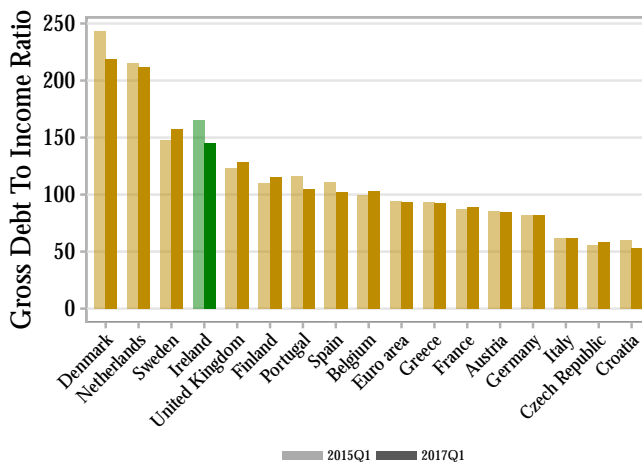
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Figure 3 presents the DTI ratio for selected European countries to provide a benchmark for Ireland’s position internationally. Notwithstanding the significant reduction in recent years, Ireland’s DTI ratio stood at 145.2 in Q1 2017, which was the fourth highest in this comparison group.* Further reductions in the DTI ratio would reduce financial vulnerabilities.

*International comparisons should be considered with caution as DTI ratios can mask differences in net wealth and savings.

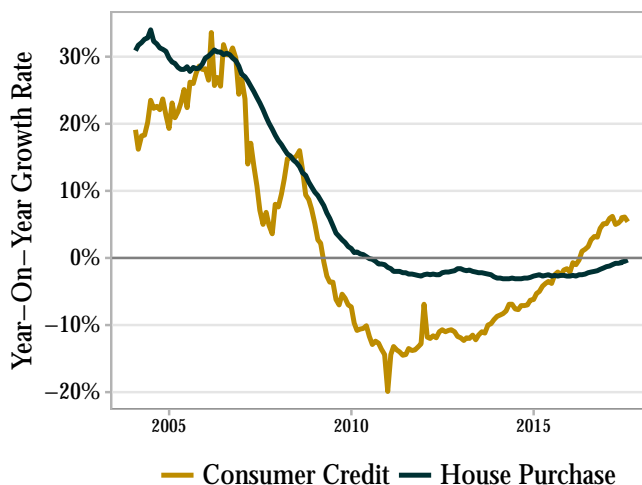
Figure 3. Debt-to-Income Ratios Across Countries, Q1 2015 and Q1 2017



Source: Central Bank of Ireland, Quarterly Financial Accounts and ECB Statistical Data Warehouse (SDW). Note: Debt-to-income ratios excluding Ireland taken from ECB SDW.

Figure 4 documents the year-on-year percentage change in credit to Irish resident households from Irish resident credit institutions for both consumer loans as well as loans for house purchase. The change in loans for house purchase was -0.3 per cent in August 2017, down from -2.0 per cent one year ago. This indicates an easing in the pace of contraction. The percentage change in consumer credit was positive and stood at 5.4 per cent in August 2017, up from 3.2 per cent one year earlier.

Figure 4. Per Cent Year-on-Year Change in Credit for House Purchase and Consumer Credit, January 2004 - August 2017



Source: Central Bank of Ireland, Credit, Money and Banking Statistics. Note: These percentage changes (growth rates) are taken from CBI table A.5.1.



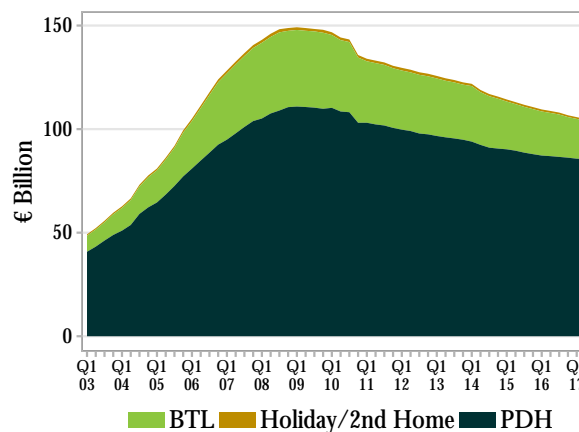
2 Developments in Mortgage Credit

2.1 Mortgage Credit Stocks Outstanding

Figure 5 presents the evolution of the total outstanding stock of credit for house purchase to domestic resident households by resident credit institutions. These data are split between loans for primary homes (PDH), buy-to-let investments (BTL) and holiday or other second-homes (Holiday/2nd Home). The majority of lending has historically been for PDH mortgages. Total outstanding PDH house purchase credit amounted to €85.5bn, BTL loans to €18.5bn and holiday or second home loans were approximately €0.8bn in Q2 2017. BTL loans represented c.18 per cent of the stock in Q2 2017 compared to a peak proportion of c.26 per cent in Q1 2008.

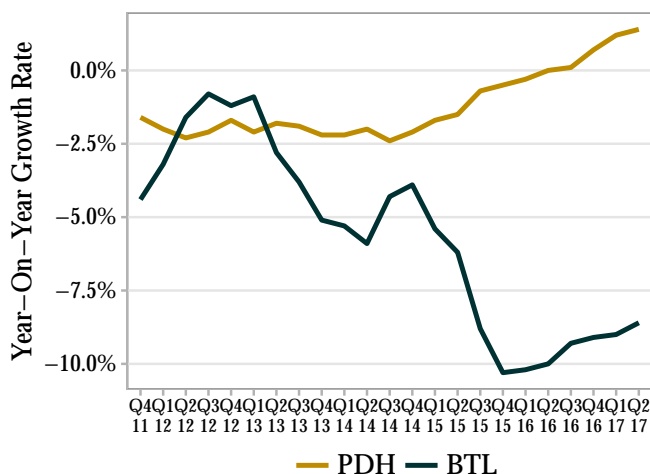
Figure 6 shows that mortgage credit advanced to Irish resident households for PDH mortgages by resident credit institutions increased at an annual rate of 1.4 per cent in Q2 2017. This represents an increase in the growth rate in PDH mortgage credit following a period of prolonged deleveraging. Loans for BTL purposes declined at an annual rate of -8.6 per cent.

Figure 5. Outstanding Mortgage Credit by Dwelling Type, Q1 2003-Q2 2017



Source: Central Bank of Ireland, *Credit, Money, and Banking Statistics*. Note: Figure 5 is based on the current outstanding stock of mortgages on the balance sheet of banks residing in Ireland. These numbers are subject to population changes and asset sales in the banking sector. Note: Totals sum CBI tables A.18.1 and A.18.2 (securitised data).

Figure 6. Per Cent Year-on-Year Change in Mortgage Credit by Dwelling Type, Q4 2011-Q2 2017



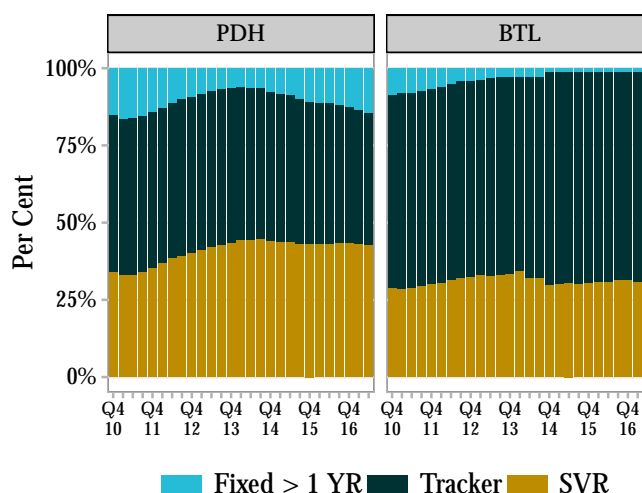
Source: Central Bank of Ireland, *Private Household Credit and Deposits*, table A.18.1.



2.2 Interest Rates on Outstanding Loans

Figure 7 presents the breakdown of outstanding PDH and BTL loans by interest rate type; standard variable rate and up to 1 year fixed rate (SVR), fixed rate (over 1 year) and tracker rate. As of Q2 2017, for PDH loans, 43 per cent of the balance of loans were contracted to SVR and up to 1 year fixed interest rates. A further 43 per cent of the balance had tracker rates and the remaining 14 per cent were fixed-rate contracts of over 1 year maturity. For BTL loans, a majority were tracker rate mortgages (68 per cent) with SVR and up to 1 year fixed rates being the second largest type of rate structure (31 per cent). Approximately 1 per cent of BTL loans were on fixed rates of over 1 year.

Figure 7. Rate Type on Mortgage Credit Outstanding Stock, Q4 2010-Q2 2017



Source: Central Bank of Ireland, Credit, Money and Banking Statistics, tables A.18.1 and A.18.2.

To provide more granular detail on the interest rates faced by borrowers with different mortgage interest rate types, Table 1 presents the average interest rate on outstanding PDH and BTL mortgages by interest rate type. As of Q2 2017, the average standard or LTV variable rate on PDH mortgages was 3.78 per cent. This rate has declined from 3.91 per cent in Q2 2016. The average rate on outstanding tracker PDH mortgages stood at 1.04 per cent in Q2 2017. The tracker rate on BTL mortgages stood at 1.09 per cent in Q2 2017. Fixed rates on PDH and BTL mortgages varied by term duration and have also fallen compared to one year earlier, other than BTL fixed rates of over 3 year maturities.

Table 1. Average Interest Rate on Mortgage Credit Outstanding Stock by Rate Type

Average Rate	PDH		BTL	
	Q2 '16	Q2 '17	Q2 '16	Q2 '17
SVR or LTVV	3.91	3.78	4.34	4.38
Tracker	1.01	1.04	1.05	1.09
<i>Fixed</i>				
1 to 3 Years	3.78	3.47	4.51	4.37
over 3 years	3.43	3.24	2.40	2.72

Source: Central Bank of Ireland, Retail Interest Rates, table B.3.1.

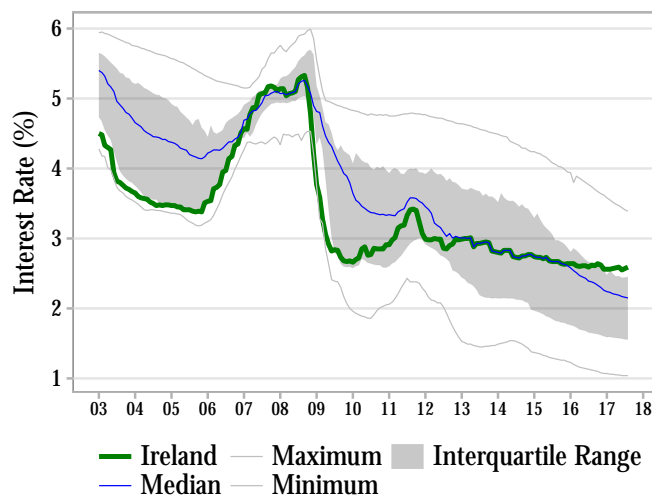


To provide an international comparison, Figure 8 presents interest rates on the stock of outstanding mortgages for Ireland and the median across a group of select European countries.* Percentiles and the sample maximum and minimum are also displayed. The interest rate on current outstanding mortgages in Ireland was 2.59 per cent as of August 2017, relatively unchanged from one year earlier. Interest rates in Ireland remain high relative to the sample median in other European countries presented.

It is important to note that, for Ireland, there are also large differences between the outstanding rate on tracker loans and standard variables rates as documented in Table 1. Figure 8 aggregates across these categories. In addition to differences in interest rates, part of the cross-country variation can thus be explained by the different shares of variable and fixed-rate mortgages in the stock of loans in each country, as well as by other structural features of the residential real estate market.

*Countries were selected on the basis of data availability. Included countries are: AT, BE, DE, ES, FI, FR, GR, IE, IT, LU, NL, and PT.

Figure 8. Interest Rates on Current Outstanding Mortgages, European Comparison, January 2003-August 2017



Source: European Central Bank, MFI Interest Rates.

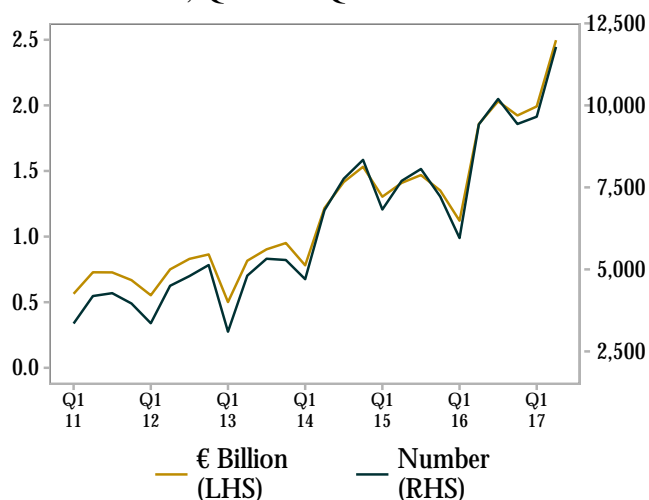


2.3 Mortgage Approvals and New Lending

2.3.1 Overview of New Lending

Figure 9 presents data on approvals for new mortgage lending from the Banking and Payments Federation Ireland (BPF). The value of new mortgage loan approvals totalled €2.5bn during Q2 2017. This increased from €1.9bn during Q2 2016. The number of new loan approvals totalled 11,782 during Q2 2017. This was up from a total of 9,419 approvals during Q2 2016.

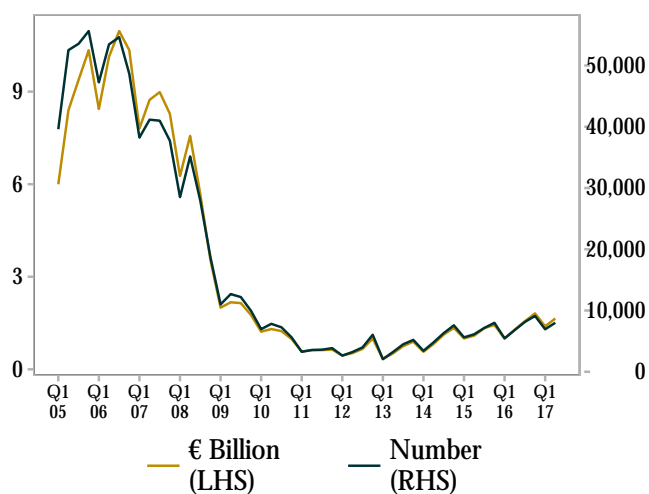
Figure 9. New Mortgage Approvals by Count and Balance, Q1 2011-Q2 2017



Source: Banking and Payments Federation Ireland. Note: An approval may or may not be drawn down by the customer. This depends on a range of factors. Each approval is counted only once, even if the value, or other aspects, of the approval subsequently change.

Figure 10. New Mortgage Lending by Loan Count and Balance, Q1 2005-Q2 2017

Figure 10 presents data on new mortgage lending from the BPF. The value of new lending stood at €1.65bn in Q2 2017. This increased from €1.29bn in Q2 2016, an increase of 28 per cent. The number of new loans increased from 6,803 in Q2 2016 to 8,000 in Q2 2017. This represents an 18 per cent expansion. While lending volumes have increased they remain well below levels seen in the 2005-2007 period.

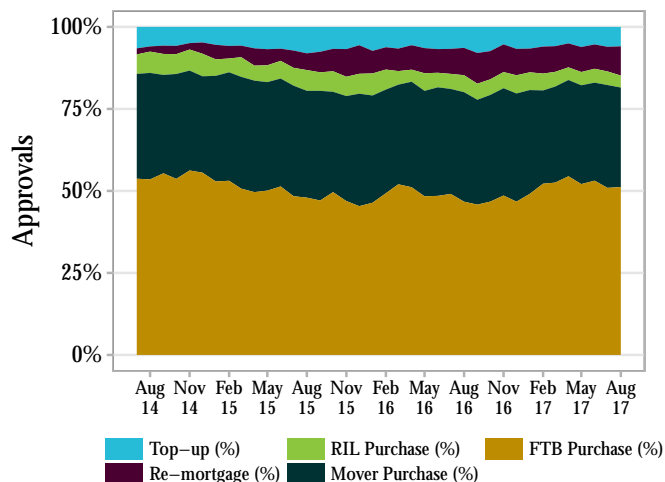


Source: Banking and Payments Federation Ireland.



Figure 11. Breakdown of New Mortgage Approvals (Count) by Credit Type, July 2014-August 2017

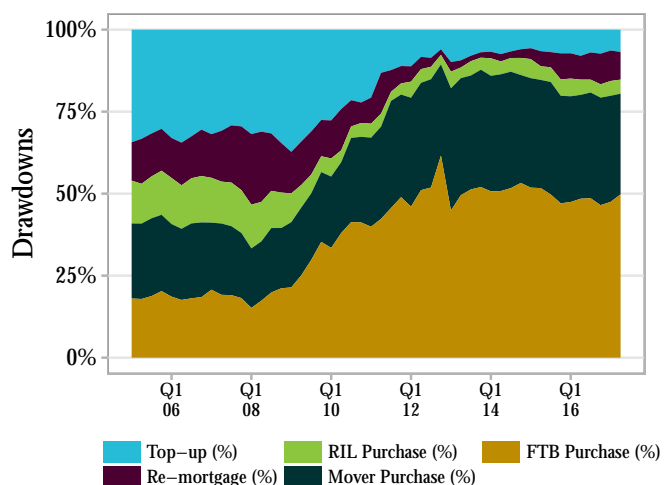
Figure 11 presents data on approvals for new mortgage lending by credit-applicant type across the following categories: First Time Buyers (FTB), Movers, Residential Investment Loans (RIL), Re-mortgaging and equity release (Top-ups). During August 2017, FTBs accounted for 51.2 per cent of new approvals, Movers accounted for 30.3 per cent of new approvals with 3.7 per cent for RIL, 8.9 per cent for re-mortgages and 5.9 per cent for Top-ups.



Source: Banking and Payments Federation Ireland.

Figure 12. Breakdown of New Mortgage Lending (Drawdowns) by Credit Type, Q1 2005-Q2 2017

Figure 12 presents new mortgage lending by loan type. The categories used are the same as those for mortgage approvals. Since 2009, the highest share of mortgage borrowing has been undertaken by FTBs. In Q2 2017, FTBs accounted for 49.8 per cent of new loans, Movers accounted for 30.7 per cent of new loans with 4.3 per cent for RIL, 8.4 per cent for re-mortgages and 6.8 per cent for Top-ups.

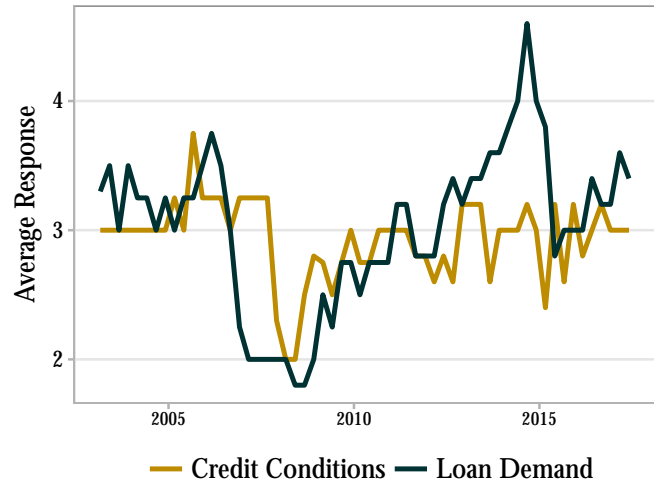


Source: Banking and Payments Federation Ireland.



To provide further insight into the credit conditions facing households and their demand for credit, Figure 13 presents the average response from bank loan officers to questions on credit conditions and credit demand for house purchase from the Central Bank of Ireland / Eurosystem Bank Lending Survey. Each respondent indicates whether credit conditions have changed in the following manner: 1 = Tightened considerably, 2 = Tightened somewhat, 3 = Remained basically unchanged, 4 = Eased somewhat, and 5 = Eased considerably. For credit demand, respondents answer: 1 = Decreased considerably, 2 = Decreased somewhat, 3 = Remained basically unchanged, 4 = Increased somewhat, and 5 = Increased considerably. The mean responses are then calculated across loan officers. They indicate that loan demand for house purchase increased over the period 2013 to mid-2014 but stabilised in 2015. In Q2 2017, credit standards remained unchanged, while loan demand continued to increase.

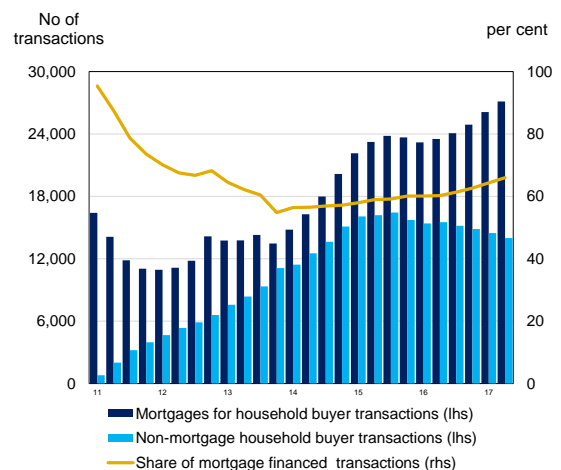
Figure 13. Loan Demand and Credit Conditions for House Purchase Loans, Q1 2003-Q2 2017



Source: Central Bank of Ireland / Eurosystem Bank Lending Survey.

Figure 14 provides some context on the relative size by number of mortgaged versus non-mortgaged (predominantly cash) household residential property transactions. Despite a gradual increase in the share of mortgaged household transactions since 2014, the share of non-mortgaged household transactions remains quite significant at c.34 per cent in Q2 2017.

Figure 14. Financing of Household Residential Property Transactions by number, Q1 2011-Q2 2017



Source: BPF, CSO and Central Bank of Ireland calculations. Data refer to HH transactions only, i.e. transactions completed by / mortgages to FTBs, mover purchasers and BTL purchasers and do not include non-HH transactions. Rolling annual total.



2.3.2 New Lending for Home Purchase

Summary statistics for new mortgage lending for the period January - June 2017 inclusive are shown in Table 2. The average loan size of new mortgages was €206,492. Average loan sizes were larger for SSBs relative to FTBs. The average OLTV across all loans was 73.9 per cent and the average OLTI was 2.8. FTBs had a higher average OLTV and OLTI relative to SSBs. The average loan term was 27 years, with FTBs having a higher average term, which was 29 years. Average gross income of all borrowers was €84,248. For FTBs, average income was €70,301 and for SSBs it was €105,985.

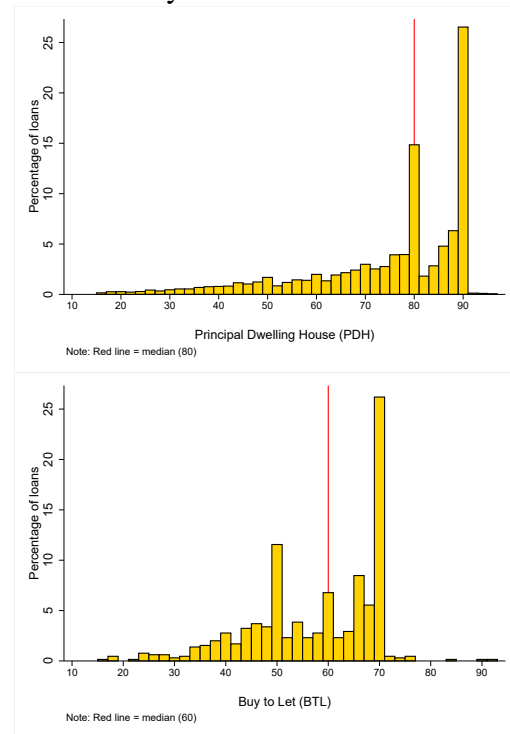
Table 2. Overview of New Lending, January - June 2017 (Average Characteristics)

	All	FTB	SSB	BTL
Loan Characteristics				
Loan Size (€)	206,492	199,414	229,332	125,155
OLTV (%)	73.9	79.4	67.6	57.2
OLTI	2.8	3.0	2.5	-
Loan Term (Years)	27	29	24	19
Interest Rate (%)	3.4	3.4	3.2	4.7
Borrower Characteristics				
Income (€)	84,248	70,301	105,985	-
Borrower Age (Years)	37	34	41	-

Source: Central Bank of Ireland, Monitoring Template data (MTD).

Figure 15 shows the distribution of Originated Loan-to-Value (OLTV) ratios for new lending between January - June 2017. The distributions are shown separately for PDH and BTL borrowers. The distribution for PDH spikes at around 80 and 90 per cent OLTV in line with the LTV limits under the mortgage regulations. There was very little lending to PDH borrowers at an OLTV greater than 90 per cent. For BTLs, the distribution spiked at the 69-70 per cent OLTV, consistent with the limit of 70 per cent OLTV for BTL lending.

Figure 15. Distribution of Originated Loan-to-Value Ratios by Type of Purchase, New Lending Between January - June 2017

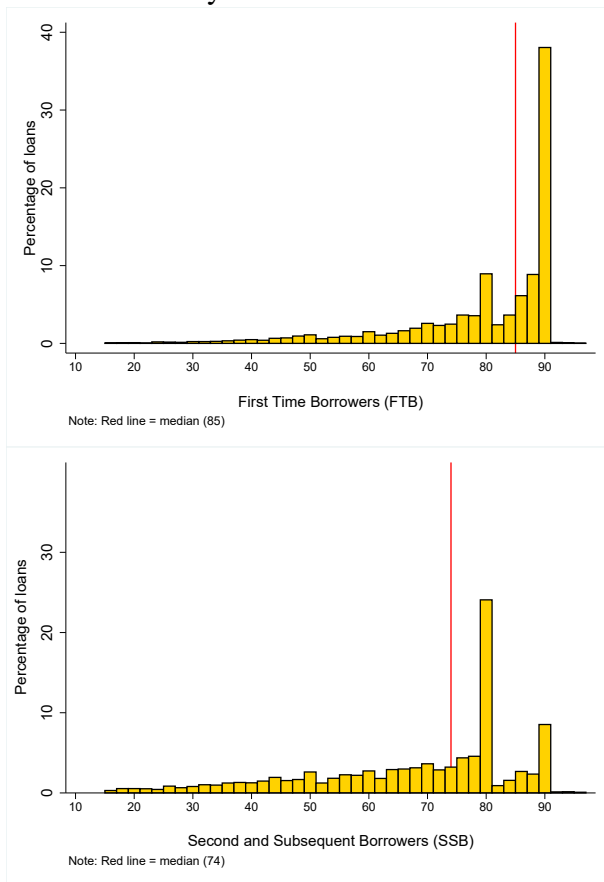


Source: Central Bank of Ireland, MTD.



Figure 16 breaks down the PDH distribution of OLV ratios by buyer status for new mortgages from the MTD between January - June 2017. These data refer to all PDH new loans across FTBs and SSBs. The median OLV for FTBs was 85 per cent. For FTBs, a considerable portion of the distribution was at the regulatory maximum limit of 90 per cent. For SSBs, the median OLV was 74 per cent.

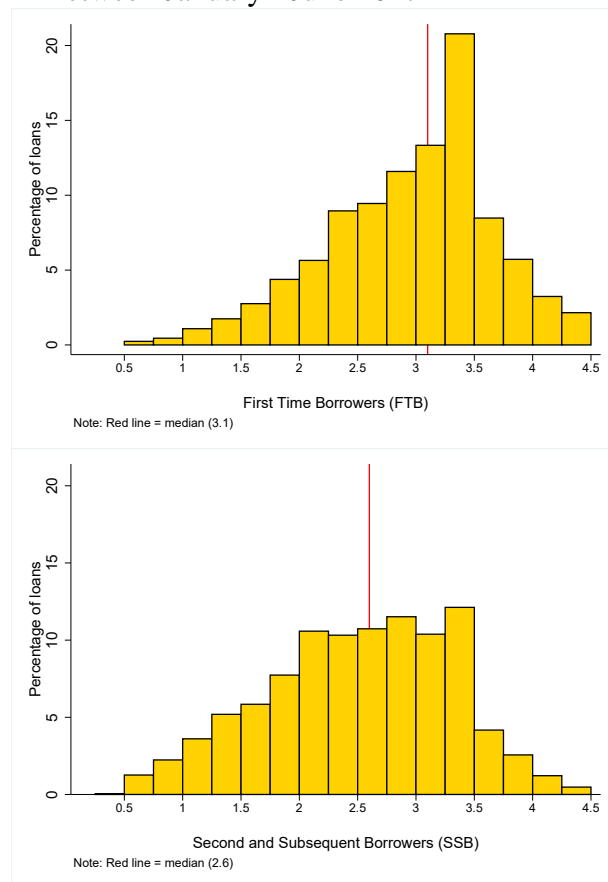
Figure 16. Distribution of Originated Loan-to-Value Ratios by Buyer status, New Lending Between January - June 2017



Source: Central Bank of Ireland, MTD.

Figure 17 breaks down the PDH distribution of OLV ratios by buyer status for new mortgages from the MTD between January - June 2017. As is the case for the OLV charts, these data refer to all PDH loans for new residential property purchase across FTBs and SSBs. The median OLV for FTBs was 3.1. For FTBs, a considerable portion of the distribution was around the regulatory maximum limit of 3.5 times gross income. Some lending took place for FTBs at higher OLV values. For SSBs, the median OLV was 2.6 times gross income. The distribution of OLV for SSBs was much more dispersed with no noticeable spike around the 3.5 limit.

Figure 17. Distribution of Originated Loan-to-Income Ratios by Buyer status, New Lending Between January - June 2017



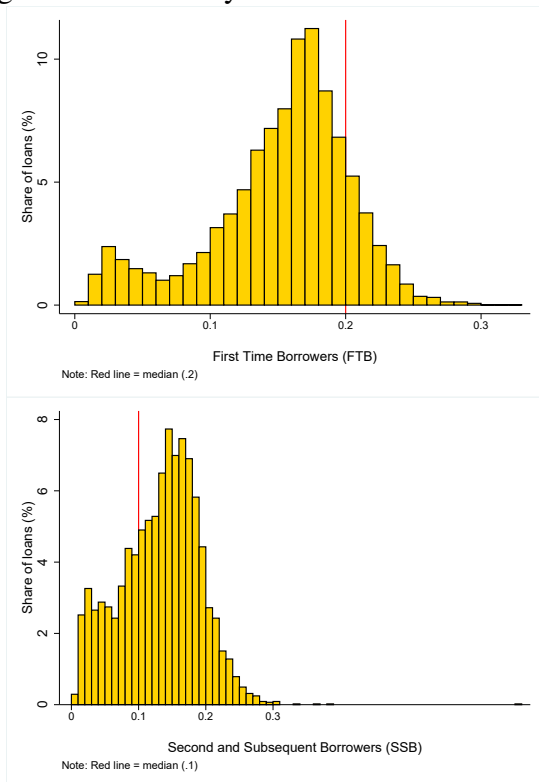
Source: Central Bank of Ireland, MTD.



Figure 18 presents the distributions of originated debt-service-to-income ratios (DSR) for FTBs and SSBs respectively from the MTD. FTBs had higher median DSR than SSBs, at 0.2 and 0.1 respectively. For FTBs, the bulk of the distribution was concentrated between a DSR of 0.1-0.3. Compared to SSBs, relatively few FTBs have a DSR less than 0.1. For both borrower types, very little new lending occurs where the DSR exceeds 0.3.*

*DSR is calculated using the mortgage instalment relative to income where total household gross income is defined as basic annual gross income before taxes, excluding rental income. Debt refers to mortgage debt only.

Figure 18. Distribution of Originated Debt-Service-to-Income by Buyer Status, New Lending Between January - June 2017

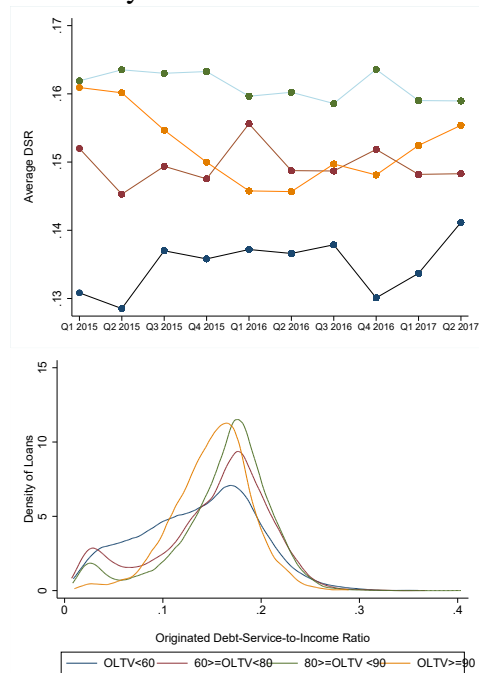


Source: Central Bank of Ireland, MTD.

OLTV and DSR ratios can indicate a borrower’s degree of vulnerability to negative equity and cash-flow problems, respectively. Figure 19 presents the evolution of FTB DSRs from February 2015 to Q2 2017 for different ranges of OLTV. The top plot presents the average FTB DSR for different OLTV groups. On average and at origination, loans with lower LTV (less than 60 per cent) have also exhibited lower DSRs since 2015. The bottom plot presents a density for FTB DSRs by OLTV group. For any range of OLTV values, few loans had a debt-service-to-income ratio larger than 0.3. There was more dispersion in the DSR distribution of low OLTV loans.^a

^aThis chart is based on a sample comprising new property purchase and self-built loans only, that were in-scope for the Mortgage Measures. The effective date of introduction of the measures was the 9th February 2015.

Figure 19. Originated Debt-Service-to-Income across LTV ranges for FTBs, New Lending Between February 2015 and June 2017



Source: Central Bank of Ireland, MTD.



Figure 20 presents the distributions of interest rates on new loans for FTBs by interest rate type: fixed rates greater than 1 year up to 3 years, fixed rates greater than 3 years and fixed rates of up to 1 year combined with standard or LTV variable rates. Each box shows the levels (as read on the y-axis) of the interest rates across different types of rate. The body of the box is delimited by the upper and lower quartile, with the line in the middle of the box indicating the median. Dots indicate outliers.* The majority of mortgages with a fixed interest rate were clustered between the values of 3.25 and 3.5 per cent.†

*An outlier is a value outside the quartile range.

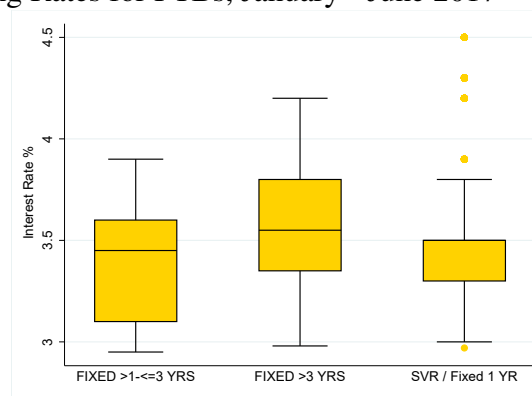
†This chart is based on a sample comprised of new property purchase and self-build loans only.

Figure 21 presents interest rates on new loans for house purchase for Ireland and the median across a group of selected European countries.* Percentiles and the sample maximum and minimum are also presented. The interest rate in Ireland as of July 2017, at approximately 3.2 per cent, was the second highest of the countries presented. As was the case with the interest rate on outstanding loans, part of the cross-country variation can be explained by the different shares of variable and fixed-rate mortgages in total new loans in each country.†

*Countries were selected on the basis of data availability. Included countries are: AT, DE, ES, FI, FR, GR, IE, IT, LU, NL, and PT.

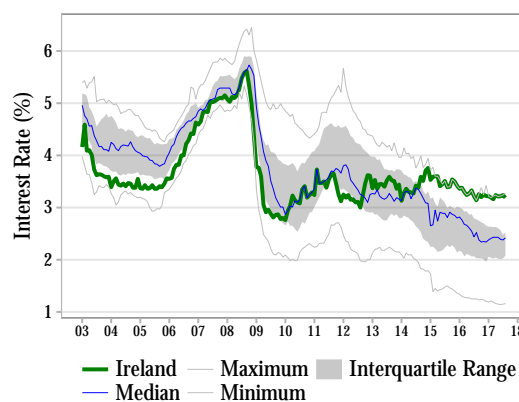
†Note: Data include within-bank restructured mortgage contracts and renegotiated loans (mortgage switchers) and do not only capture the interest rates on new mortgage drawdowns. New mortgage rates (excluding restructures) are provided in Table 3.

Figure 20. Distribution of New Mortgage Lending Rates for FTBs, January - June 2017



Source: Central Bank of Ireland, MTD.

Figure 21. Interest Rates on New House Purchase Loans, Jan 2003 - August 2017



Source: European Central Bank, MIR.



Table 3 depicts the average interest rates on new PDH and BTL mortgages along with the accompanying share of new lending by value. As of Q2 2017, the average rates on new PDH standard or LTV variable rate loans and fixed rate loans of 1 to 3 years stood at 3.34 per cent and 3.24 per cent respectively. These rates have declined by 23 basis points and 30 basis points, respectively, since the same quarter in 2016. Standard or LTV variable rate loans accounted for approximately 51 per cent of new PDH loans and 90 per cent of BTL loans.

2.3.3 Loan Refinancing

Figure 22 displays the trend in the number of re-mortgage loans between Q1 2012 and Q2 2017. This data is taken from the breakdown of New Mortgage Lending (Drawdowns) by credit type from the Banking and Payments Federation Ireland.* We observe an increasing trend in the number of re-mortgage loans from Q2 2014 onwards. The number of refinanced loans stood at 675 as at Q2 2017, an increase of 37 per cent year-on-year.

*The BPFPI defines a re-mortgage as a mortgage loan which is issued by one lender to refinance an existing mortgage with another lender. This may or may not include further equity release.

Table 4 presents summary statistics for refinancing (switcher) mortgage lending for the period January to June 2017 inclusive. As with new house purchase lending, these statistics are calculated based on the MTD. The average loan size of new refinance mortgages was €220,437. The average LTV across all loans was 57.8 per cent and the average LTI was 2.4. The interest rate on refinanced loans was 3.2 per cent on average and the average loan term was 22 years. Average gross income of borrowers with refinanced PDH mortgage loans was €100,180.*

*Refinances refer to borrowers who switched mortgage provider and either maintained the same loan amount or increased the amount borrowed. This data does not include borrowers who refinanced with their existing bank.

Table 3. New Mortgage Lending Rates and¹⁴ Share by Volume

	PDH		BTL	
	Q2 '16	Q2 '17	Q2 '16	Q2 '17
Lending Rates				
Standard or LTV Variable	3.57	3.34	4.85	4.73
% of Vol.	54	51	89	90
Fixed 1 to 3 Yrs	3.54	3.24	4.70	4.18
% of Vol.	32	30	9	4
Fixed over 3 Yrs	3.68	3.44	5.32	5.01
% of Vol.	14	19	2	6

Source: Central Bank of Ireland, Retail Interest Rates, table

B.3.1. Note: Data excludes restructured loans.

Figure 22. Number of Re-mortgage Loans, Q1 2012 to Q2 2017



Source: Banking and Payments Federation Ireland (BPFPI).

Table 4. Refinanced Mortgage Overview, January to June 2017

	All
Loan Characteristics	
Loan Size (€)	220,437
LTV (%)	57.8
LTI	2.4
Loan Term (Years)	22
Interest Rate (%)	3.2
Borrower Characteristics	
Income (€)	100,180
Borrower Age (Years)	41

Source: Central Bank of Ireland, MTD.  BPFPI.  éanna na hÉireann
Central Bank of Ireland

Eurosphere

2.3.4 Equity Release and Top-Ups

Table 5 presents an overview of the equity releases and top-ups granted between January to June 2017. 1,037 equity release/top-ups were granted during this period totalling €82.8mn. The average loan size of equity releases/top-ups was €80,529. The average new facility LTV (taking into account the borrower's total exposure following the equity release/top-up) was 57.0 per cent and average LTI at the facility level was 2.3. The interest rate on equity release/top-up loans was 3.4 per cent on average and the average loan term was 21 years. The average gross income of borrowers with equity releases/top-ups was €108,203. The average age of equity release/top-up borrowers was 43 years, which is higher than that for new property purchase loans.

2.3.5 Loan Terms over Time

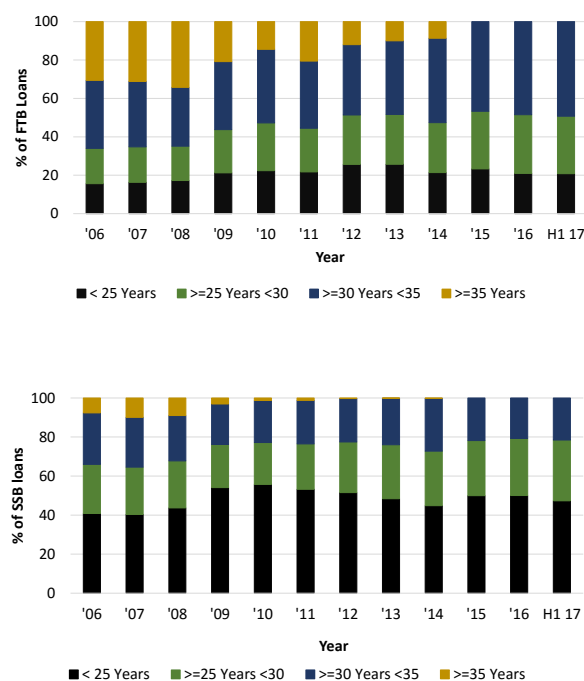
Figure 23 shows the percentage of new loans (by number) for FTBs and SSBs who have a loan term of less than 25 years, 25 to less than 30 years, 30 to less than 35 years and 35 plus years. For FTBs, loan terms of between 30 and less than 35 years were the single biggest category of loans in H1 2017, at almost 50 per cent. For SSBs, loan terms of less than 25 years were the single most common category, at c.47 per cent in H1 2017. Loan terms of 35 years and over have not generally been agreed since 2015. The share of loans of 30 years and over has fallen from almost two thirds in 2006 to just under half in 2017H1 for FTBs, while for SSBs it has fallen from about a third to around a fifth over the same period.

Table 5. Equity Release/Top-Up Overview, January to June 2017

	All
Loan Characteristics	
Loan Size (€)	80,529
LTV (%)	57.0
LTI	2.3
Loan Term (Years)	21
Interest Rate (%)	3.4
Borrower Characteristics	
Income (€)	108,203
Borrower Age (Years)	43
No. Loans	1,037

Source: Central Bank of Ireland, MTD.

Figure 23. Loan Terms over Time for FTBs and SSBs, 2006-2017H1



Source: Central Bank of Ireland LLD and MTD



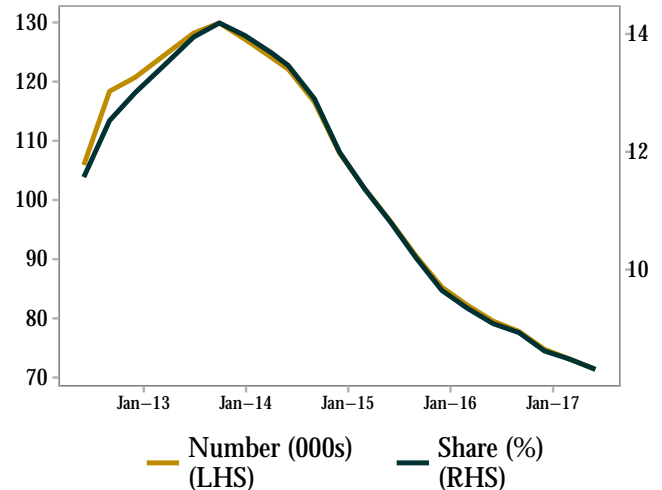
2.4 Household Vulnerability and Mortgage Arrears

Figure 24 presents the total number and share of outstanding mortgage loans in arrears of over 90 days-past-due (dpd) for all residential loans (i.e. the sum of PDH and BTL loans). The number and share of outstanding loans in arrears continued to fall in Q2 2017. There were 71,377 loans in arrears of over 90 days in Q2 2017, down from 79,533 in Q2 2016. In Q2 2017, 8.3 per cent of all residential mortgage loans outstanding were in arrears of over 90 days. The overall number of mortgage arrears peaked at circa 129,914 in Q3 2013 or approximately 14.2 per cent of all loan balances. The figures reported do not include residential mortgages held by non-bank entities, where arrears rates tend to be higher.*

*At end-June 2017, non-bank entities accounted for 5 per cent by number of the total number of PDH mortgage accounts outstanding and 8 per cent of BTL mortgages. For more details see [Residential Mortgage Arrears and Repossession Statistics](#).

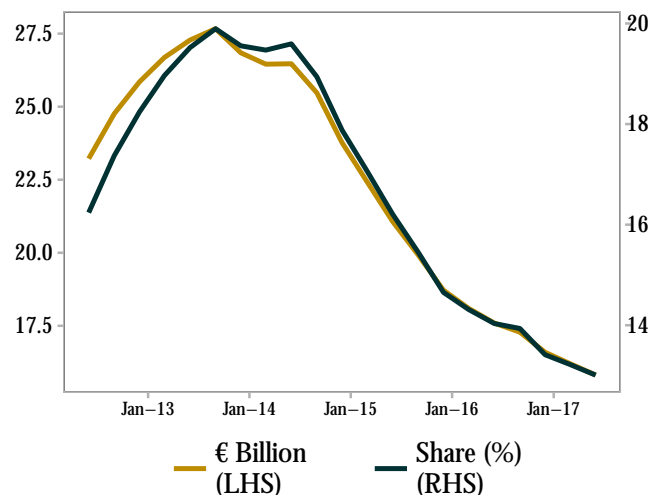
Figure 25 presents the total value and share of outstanding mortgage balances in arrears of over 90dpd for all residential loans (i.e. the sum of PDH and BTL loans). The value and share of outstanding loans in arrears continued to fall in Q2 2017. €15.8bn worth of loans were in arrears of over 90 days in Q2 2017, down from €17.6bn in Q2 2016. In Q2 2017, 13.0 per cent of the value of all residential mortgage loans outstanding were in arrears of over 90 days. The overall value of mortgage arrears peaked at circa €27.7bn in Q3 2013 or approximately 19.9 per cent of all loan balances. The figures reported do not include residential mortgages held by non-bank entities, where arrears rates tend to be higher.

Figure 24. Number and Share of Overall Mortgage Arrears over 90dpd, Q2 2012-Q2 2017



Source: Central Bank of Ireland, Mortgage Arrears Statistics. These figures do not include residential mortgages held by non-bank entities.

Figure 25. Value and Share of Overall Mortgage Arrears over 90dpd, Q2 2012-Q2 2017

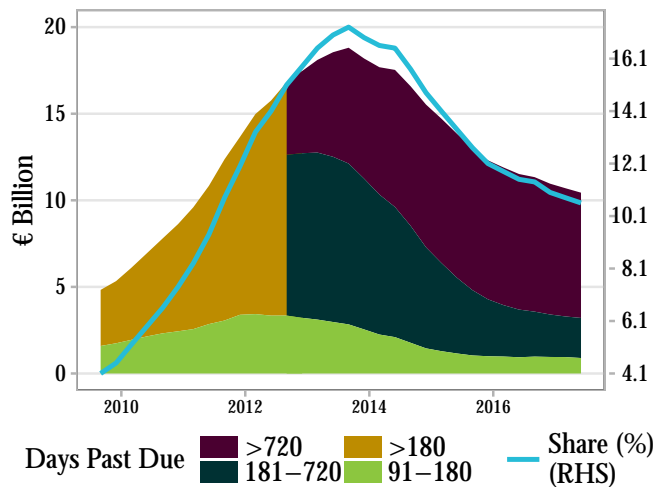


Source: Central Bank of Ireland, Mortgage Arrears Statistics. These figures do not include residential mortgages held by non-bank entities.



Figure 26 presents the total value, share and depth of outstanding PDH mortgage balances in arrears. As of Q2 2017, the value of PDH mortgages in arrears amounted to €10.4bn (left-axis). This represents 10.6 per cent of the value of the outstanding PDH stock (right-axis). The value of mortgages in arrears peaked at c.€18.8bn in Q3 2013 or 17.3 per cent of the outstanding stock of PDH mortgages by value. Despite the overall decline in the total value of PDH arrears, a large percentage of loans in arrears are in long-term arrears. In Q2 2017, €7.2bn of total PDH arrears were more than 720 dpd. A further €2.3bn were between 180 and 720 dpd, with approximately €0.9bn in arrears of between 90 and 180 dpd.

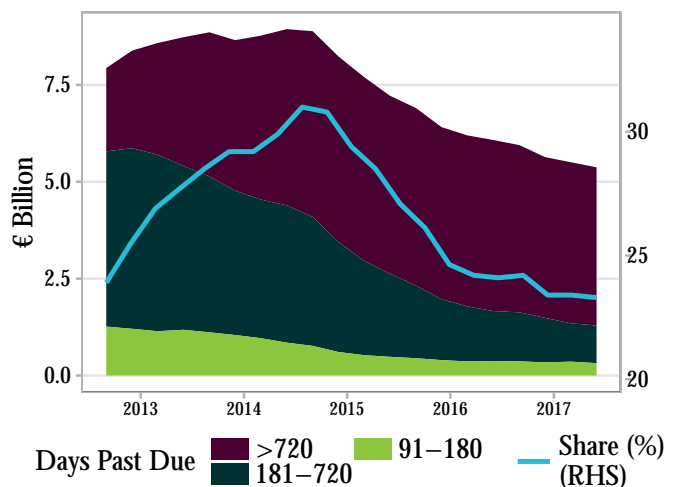
Figure 26. Value, Share and Depth of PDH¹⁷ Mortgage Arrears, Q3 2009-Q2 2017



Source: Central Bank of Ireland, Mortgage Arrears Statistics.

Figure 27 presents the total balance and share of outstanding BTL balances in arrears as well as the depth of BTL arrears by value. As of Q2 2017, the total balance of BTL mortgages in arrears was approximately €5.4bn (left-axis), representing approximately 23 per cent by value of the total outstanding BTL loan stock (right-axis). As of Q2 2017, approximately €4.1bn of BTL loans were in long-term arrears of greater than 720 dpd. A further €1bn of loans were in arrears of between 180 and 720 dpd. Approximately €0.3bn were in arrears of between 90 and 180 dpd. Although longer-term arrears have fallen in absolute value, with roughly three-quarters of BTL arrears being 720 dpd as of Q2 2017.

Figure 27. Value, Share and Depth of BTL Mortgage Arrears, Q3 2012-Q2 2017



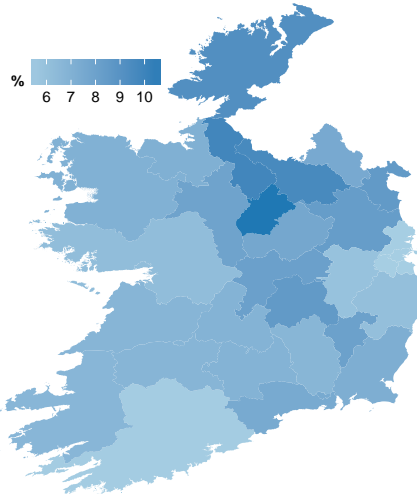
Source: Central Bank of Ireland, Mortgage Arrears Statistics.



Figure 28 presents the percentage of loans that were in arrears by county in December 2016 from the Central Bank Loan-Level Data (LLD). The data are collated from the loan-by-loan information on the following institutions: AIB, Bank of Ireland and Permanent TSB. There was considerable variation across counties in Ireland. Arrears rates were the lowest in large urban centers with higher default rates in counties in the Border and Midlands regions.*

*Note that these data are taken from the Central Bank of Ireland's Loan Level Data. The map includes data for three banks only. For the purposes of this map, a loan is classified as being in arrears if it is greater than 90 days past due on its payments. Both PDH and BTL loans are included. The map reflects the number of loans in arrears divided by the total number of loans in each county and loans are assigned to a county on the basis of their collateral location.

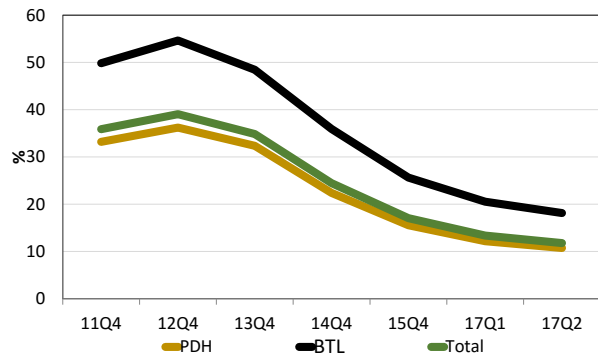
Figure 28. Arrears Rates on All Residential¹⁸ Mortgages by County (Per Cent of Loans), December 2016



Source: Central Bank of Ireland, Loan Level Data.

Figure 29 presents the percentage of loans in negative equity by number for PDH, BTL and overall residential mortgages for Irish Retail Banks' from Q4 2011 to Q2 2017. During that time, the share of PDH loans in negative equity has fallen from a peak of 36.2 per cent in Q4 2012 to 10.7 per cent in Q2 2017. The share of BTL loans in negative equity has fallen from 54.6 per cent to 18.1 per cent over the same period, while the share of overall loans has fallen from 39.1 per cent to 11.8 per cent.

Figure 29. Share of Residential Mortgages in Negative Equity (Per Cent of Loans), Q4 2011-Q2 2017



Source: Central Bank of Ireland Data. Data are consolidated and are collected in accordance with the Central Bank of Ireland's QFSR reporting requirements. Irish retail banks refer to the five banks offering retail banking services within the Irish State: Allied Irish Banks plc, The Governor and Company of the Bank of Ireland, Permanent TSB, KBC Bank Ireland plc and Ulster Bank Ireland Designated Activity Company.



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Table 6 presents the share of loans in arrears and in negative equity for both PDH and BTL loans as of December 2016. These figures are calculated using the Central Bank of Ireland's LLD and cover the following institutions: AIB, Bank of Ireland and Permanent TSB. For PDH loans, 85 per cent of loans were both in positive equity and performing, 10 per cent were in negative equity and performing, 3 per cent were in arrears and positive equity, and 2 per cent were in negative equity and arrears. For BTL loans, 72 per cent of loans were both in positive equity and performing, 15 per cent were in negative equity and performing, 6 per cent in arrears and positive equity, and 7 per cent in negative equity and arrears.*

*Negative Equity loans are defined as those with a current LTV, as reported by the banks, that is greater than 100. A loan is classified as being in arrears if it is greater than 90 days past due on its payments. The numbers may differ from previous versions of the HCMR where changes to the underlying populations and definitions have taken place. Please see Appendix A for more details.

Figure 30 presents the total stock of mortgage modifications provided by financial institutions to borrowers in arrears or pre-arrears for PDH and BTL loans.* As at end June 2017, the number of PDH mortgage accounts that were classified as restructured was 120,398. This reflects a reduction of 214 accounts compared to end June 2016. The number of BTL accounts that were classified as restructured was 23,623 as at end June 2017, a reduction of 3,307 accounts relative to end June 2016.

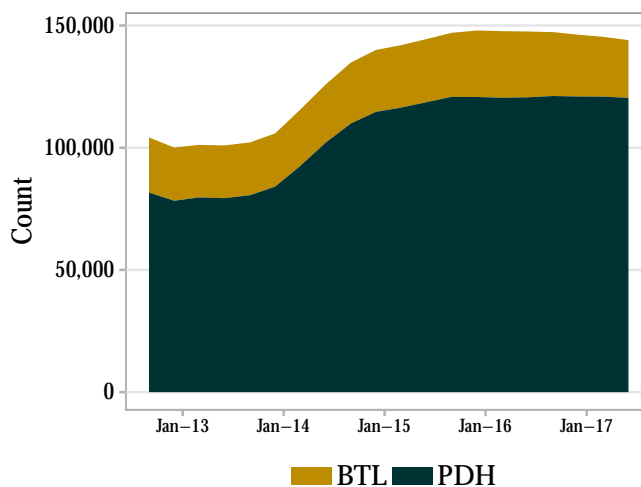
*Borrowers both in arrears and without arrears may get a modification.

Table 6. Split of Loans by Negative Equity and Arrears Status, December 2016

		PDH	
		Positive equity	Negative equity
Performing	Arrears	85%	10%
		3%	2%
		BTL	
		Positive equity	Negative equity
Performing	Arrears	72%	15%
		6%	7%

Source: Central Bank of Ireland, Loan Level Data.

Figure 30. Total Restructured Mortgage Accounts, Q3 2012 - Q2 2017

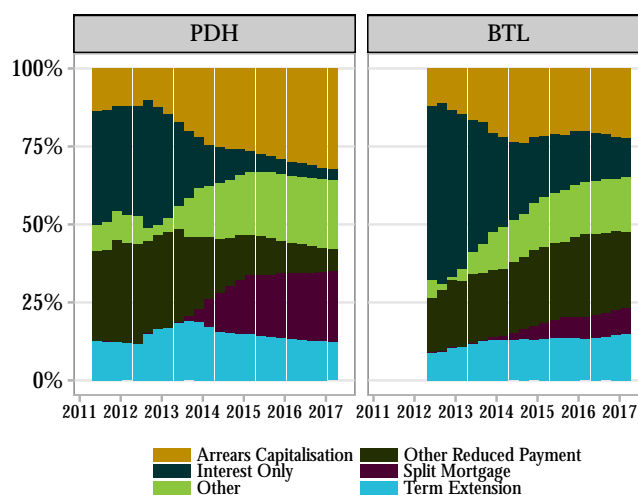


Source: Central Bank of Ireland, Mortgage Arrears Statistics. These figures do not include modifications by non-bank entities.



Figure 31. Total Restructured PDH Mortgage Accounts by Type, Q4 2010 - Q2 2017

Figure 31 presents the total number of mortgage modifications by the type of arrangement up to Q2 2017 for both PDH and BTL mortgages. For PDH loans, the most commonly occurring arrangement types were arrears capitalisations and permanent split mortgages. The share of interest only schemes and reduced payment arrangements fell further during Q2, to 9 per cent, indicating a continuing move out of short term arrangements. For BTLs, the most common arrangements were reduced payment schemes followed by arrears capitalisations.



Source: Central Bank of Ireland, Mortgage Arrears Statistics.

Table 7. Percentage of Modifications Meeting Arrangement Terms, Q2 2017

	PDH	BTL
Arrears Capitalisation	78.2	69.2
Deferred Interest Scheme	72.2	NA
Interest Only - over one year	94.8	93.2
Interest Only - up to one year	89.9	82.8
Payment Moratorium	94.1	97.9
Permanent Interest Rate Reduction	75.5	50.0
Reduced Payment (greater than interest only)	90.6	93.1
Reduced Payment (less than interest only)	76.9	67.2
Split Mortgage	93.7	93.4
Temporary Interest Rate Reduction	92.0	96.7
Term Extension	92.9	94.5
Other	86.7	89.6
Total	87	86.9

Source: Central Bank of Ireland, Mortgage Arrears Statistics.

Note: It should also be noted that some categories reflect only a small number of arrangements, particularly in the case of BTL accounts.

Table 7 outlines the percentage of modified loans meeting the terms of the arrangement, both in total and for each specific type of modification as of Q2 2017. Overall for PDH loans, 87.0 per cent were meeting the terms of the arrangement. The equivalent figure for BTL was 86.9 per cent. There is variation across modification type in the percentage of borrowers meeting the terms of the arrangements.

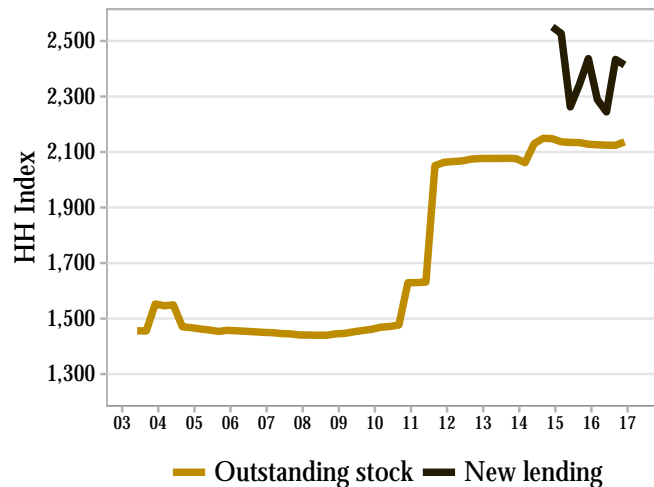


2.5 Mortgage Market Structure

Figure 32 presents a Herfindahl-Hirschman index (HH Index) for the stock of outstanding Irish mortgages. This measure is the sum of the squares of each institution's market share and is a widely accepted measure of concentration. The index has increased since the onset of the crisis and is currently high in a historical Irish perspective. The sharp increases in 2011 relate to market exits, mergers (such as AIB and EBS) and loan transfers. Values of greater than 1800 are internationally accepted by competition practitioners to be high. As the current Irish level exceeds this threshold, this indicates a highly concentrated market. This measure includes banks who are no longer actively lending. A HHI indicator based on the market share of new mortgage lending is available from December 2014.* This series indicates a higher level of concentration reflecting the exit of a number of players from new lending activity and / or reduced lending by some remaining banks.

*The series is based on new mortgage agreements and excludes renegotiated credit where a customer has switched products within a bank, negotiated a better rate, changed term, etc. See Sherman M., Box A: Competition in the Irish Mortgage Market, Central Bank of Ireland Quarterly Bulletin 2017 Q3.

Figure 32. Concentration Index for Irish Mortgage Lending, Q1 1998 - Q1 2017



Source: Central Bank of Ireland confidential data.

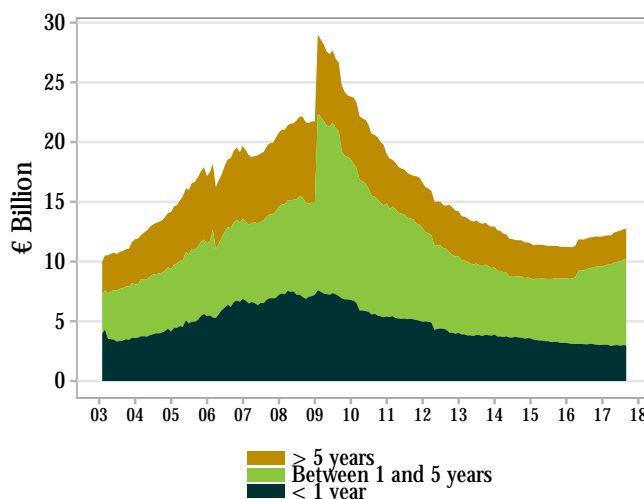


3 Non-Mortgage Household Credit

Figure 33 presents the stock of credit outstanding for consumer lending by Irish resident credit institutions by duration of the loan.* Consumer credit of less than one year stood at just under €3bn in August 2017. Loans of 1 to 5 year terms stood at €7.2bn in August 2017. Consumer loans of over 5 years stood at €2.5bn in August 2017. Differences across time periods may be affected by portfolio re-balancing and other compositional issues. For Irish households, the stock of consumer credit represents a relatively small fraction of outstanding debt. Total consumer credit of €12.7bn in August 2017 compares to outstanding credit for house purchase of €104.6bn during the same period.

*Please note that these data are compiled from resident credit institutions only. If certain credit providers, such as some car financing operations like PCP or direct-from-dealer financing, do not report data to the Central Bank under this return, then these data will not be captured by the figures presented.

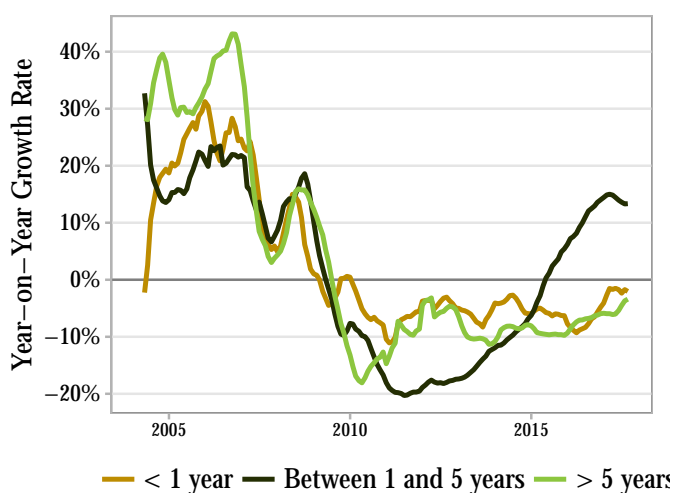
Figure 33. Outstanding Stock of Consumer Credit, January 2003 - August 2017



Source: Central Bank of Ireland, Credit, Money and Banking Statistics. Note: The increase in the series in Q1 2009 reflects the inclusion of credit unions in the reporting population. Note: These data are taken from CBI Credit, Money and Banking table A.5.1.

Figure 34 shows the growth rates in consumer credit from 2004 onwards for different lending terms. The growth rate in consumer credit of all loan durations turned negative in the first half of 2009 and extensive deleveraging occurred. The growth rate on loans of less than 1 year and of greater than 5 years duration continues to be negative at -3.1 per cent and -4.1 per cent respectively as of August 2017. However, the growth rate on loans of between 1 and 5 years duration became positive from early 2015 and reached 13.3 per cent in August 2017.

Figure 34. Growth Rate in Consumer Credit, January 2004 - August 2017



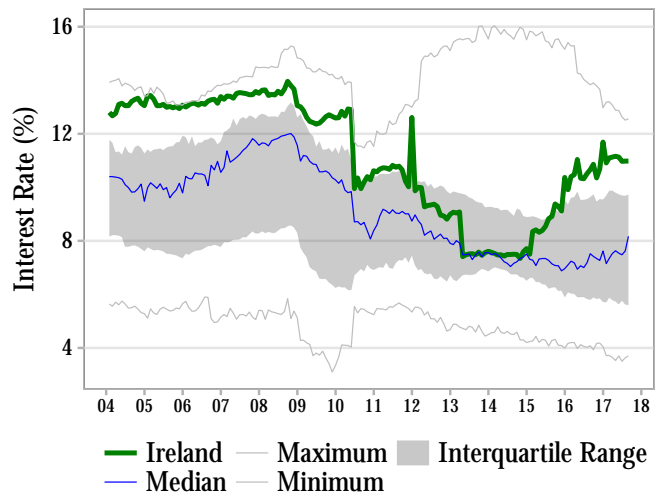
Source: Central Bank of Ireland, Credit, Money and Banking Statistics. Note: These data are taken from CBI statistical table A.5.1. Note: These growth rates have been adjusted to account for compositional issues.



Figure 35. Interest Rates on Consumer Credit, European Comparison, January 2004 -August 2017

Figure 35 presents interest rates on consumer credit (comprising revolving loans and overdrafts and convenience and extended credit card debt) for Ireland and the median across a group of selected European countries.* Percentiles and the sample maximum and minimum are also displayed. As of August 2017, the interest rate on consumer credit in Ireland was 10.98 per cent, the third highest relative to the other European countries included.

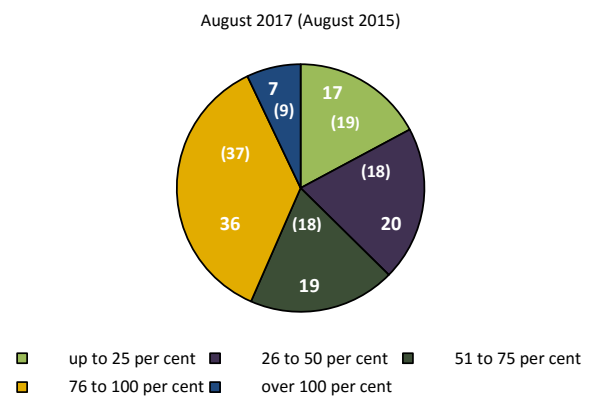
*Included countries are: AT, DE, ES, FI, FR, GR, IE, IT, LU, NL and PT.



Source: European Central Bank.

Figure 36. Distribution of Credit Card Outstanding Balances, Comparison July 2015 - August 2017

Figure 36 presents a breakdown of interest bearing balances as a percentage of credit card limits. As of August 2017, 7 per cent of cards had exceeded their credit limit and 36 per cent had balances of between 76 and 100 per cent of their credit limit. This represents a slight reduction when compared to August 2015, when the respective percentages were 9 per cent and 37 per cent.

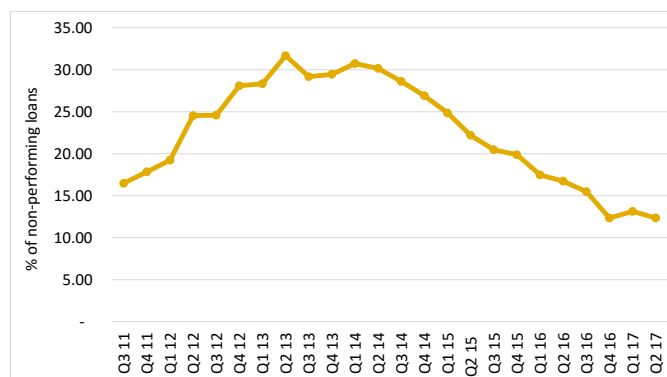


Source: Central Bank of Ireland, Credit Card Statistics



Figure 37 presents the percentage of ROI consumer loans for Irish Retail Banks' which are classified as non-performing over the time period Q3 2011 - Q2 2017. As of Q2 2017, non-performing ROI consumer loans represented 12.4 per cent of ROI consumer lending. This figure decreased from 16.7 per cent one year earlier.

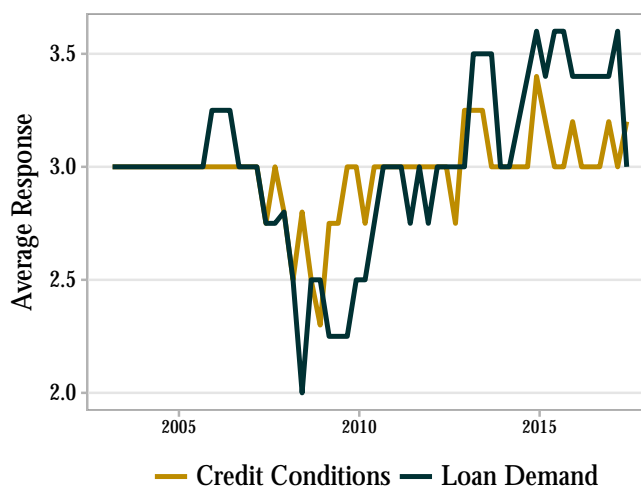
Figure 37. Irish Retail Banks' non-performing consumer loans as a share of ROI consumer loans, Q3 2011 to Q2 2017



Source: Central Bank of Ireland Data. Data are consolidated and are collected in accordance with the Central Bank of Ireland's QFSR reporting requirements. Irish retail banks refer to the five banks offering retail banking services within the Irish State: Allied Irish Banks plc, The Governor and Company of the Bank of Ireland, Permanent TSB, KBC Bank Ireland plc and Ulster Bank Ireland Designated Activity Company.

Figure 38 presents average response from bank loan officers to questions on credit conditions and credit demand for consumer lending from the Central Bank of Ireland / Eurosystem Bank Lending Survey. Each respondent indicates whether credit conditions have changed in the following manner: 1 = Tightened considerably, 2 = Tightened somewhat, 3 = Remained basically unchanged, 4 = Eased somewhat, and 5 = Eased considerably. For credit demand, respondents answer: 1 = Decreased considerably, 2 = Decreased somewhat, 3 = Remained basically unchanged, 4 = Increased somewhat, and 5 = Increased considerably. The responses indicate that credit standards on lending for consumer credit eased slightly, while demand for consumer credit remained unchanged in Q2 2017.

Figure 38. Loan Demand and Credit Conditions for Consumer Loans, Q1 2003 - Q2 2017



Source: Central Bank of Ireland / Eurosystem, Bank Lending Survey.



Box 1: The financial resilience of mortgaged Irish households; update to June 2017

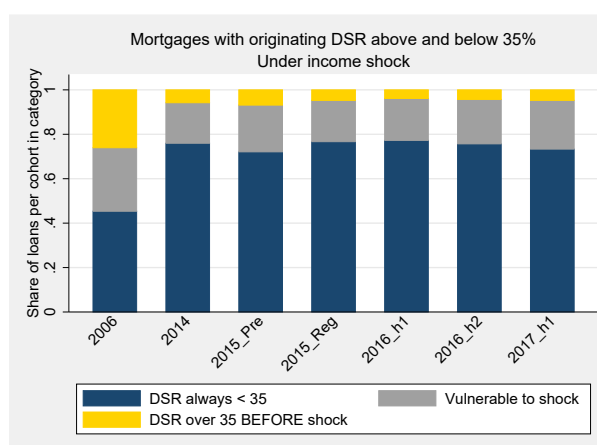
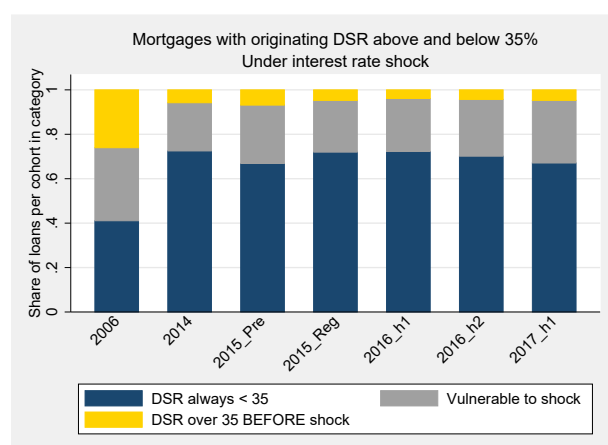
Household Credit Market Report 2016 H2 presented a profile of the originating debt service burdens of newly-issued mortgages from 2003 to 2015. The Report measured debt service burdens as the ratio of monthly mortgage repayments to monthly after-tax income (Debt Service Ratio, DSR), with a threshold for a “high DSR” set at 35 per cent. The analysis split each year’s cohort of newly-issued owner-occupier mortgages into three groups: those that originate with a DSR above 35 per cent, those whose DSR would surpass 35 per cent under a hypothetical adverse shock, and those whose DSR would remain under 35 per cent after such a shock. The results showed that the share of loans appearing resilient at origination had fallen during the 2003 to 2007 period from 80 to 40 per cent, with this share returning to a range between 70 and 80 per cent since 2012. The aim of this Box is to update the originating DSR analysis to observe how financial resilience and vulnerability have evolved in the 2016-2017 period.

Two shocks are applied: firstly each loan’s interest rate is increased by 242 bps, in accordance with adverse scenario paths previously used by the Central Bank of Ireland in stress-testing exercises; secondly, all incomes are assumed to fall by 20 per cent. Chart A presents the share of loans falling into categories (1) to (3) for a selected set of years and half-years. The chart shows that, since 2014, the share of vulnerable loans has been relatively steady. The group marked “2015 Pre” exhibit higher levels of vulnerability than those in the 2014 or the “2015 Reg” group, perhaps reflecting a degree of “front-loading” among borrowers acquiring mortgage approval before the implementation of the Mortgage Measures in February 2015.

When comparing the loans issued to June 2017 to those in the first and second half of 2016, there has been a slight increase in vulnerability, with 4.7 per cent of mortgages having a DSR above 35 and a further 28.1 per cent passing above the DSR threshold of 35 per cent once the interest rate shock is applied (these numbers have increased from 3.9 and 23.9 per cent in 2016 H1, respectively). Similar patterns are observed when applying a 20 per cent income shock as shown in Chart B.

Chart A: Interest rate shock of 242 bps

Chart B: Income shock of 20 per cent



Source: Central Bank of Ireland Monitoring Template and Loan Level Data; authors’ calculations



Appendix A: Data Sources

Data for the Household Credit Market Report are drawn from:

- Central Bank of Ireland [Credit and Banking Statistics](#), [Interest Rate Statistics](#), [Credit and Debit Card Statistics](#) and [Quarterly Financial Accounts](#) aggregate statistics, loan-level data collected by the Central Bank of Ireland from the Irish domestic banks, consolidated data collected in accordance with the Central Bank of Ireland's QFSR reporting requirements and the Eurosystem/Central Bank of Ireland [Bank Lending Survey](#), the Banking and Payments Federation Ireland and the Central Statistics Office. For cross-country comparisons, the report also draws on data from the European Central Bank, Monetary Financial Institution (MFI) Statistics.
- The loan data presented from the *Credit and Banking Statistics* represents securitised and non-securitised loans from Irish resident financial institutions. This is a lower bound figure as it does not include Irish banks that were previously in the reporting population to the CBI but have since left the market and banks whose mortgage loan books have been sold to non-banks or sub-prime mortgages. For further information on outstanding mortgage credit stocks, please refer to the [Quarterly Bulletin No. 1 2016](#) Box A: Enhancements to Household and Non-Financial Corporation Bank Lending Series in Money and Banking Statistics by Martina Sherman and the [Statistical release on the 30th September 2016](#) on Credit and Banking Statistics.
- Central Bank of Ireland Loan-Level Data (LLD): This data set provides information on a wide range of loan characteristics including outstanding balances, loan terms and loan repayment for the population of mortgage and consumer loans at AIB, BOI and PTSB. For mortgages, loans in 'Arrears' are defined as loans greater than 90 days past due. This is a change from pre-2017 HCMRs where loans were classified as in 'Arrears' if they were greater than 90 days past due and/or impaired. The rationale for this change is to align the definition with that used as part of the Central Bank of Ireland's official statistics on mortgage arrears. Data covering non-mortgage loans are available for AIB, BOI and PTSB. Loans in arrears for consumer data are classified as non-performing by the lending institution. The loans included in this population are those submitted to the Central Bank in the consumer tapes of the loan-level data submissions. Loans with a missing current outstanding balance are omitted as are loans not classified as term or revolving status. The data are included in this report on a best efforts basis. Figures and tables based on the LLD may differ from previous HCMR versions where revisions have taken place or where underlying data samples have changed. Time series comparisons across reports are not advised and will be presented within specific reports where possible.
- Central Bank of Ireland loan-level data from the Monitoring Template Data: This data provides information on a wide range of loan and borrower characteristics including outstanding balances, loan terms and loan repayment for the population of mortgage loans at AIB, BOI, Ulster Bank, KBC and PTSB. This report draws on three samples of loans from the monitoring templates data (MTD). First, a sample of new lending comprised of new property purchase loans and self-build loans that originated in H1 2017. Second, a sample of refinanced loans, which refers to borrowers who switched mortgage provider with or without increasing their loan amount in H1 2017. Third, borrowers who obtained a new top up or equity release in H1 2017. Outliers are trimmed from the full sample of MTD at the 1st and 99th percentile.
- Eurostat, Population Statistics are used in calculating per capita values.
- Central Bank of Ireland [Residential Mortgage Arrears and Repossession Statistics](#). The figures quoted do not include residential mortgages held by non-bank entities, details of which are available in the Mortgage Arrears release.
- Herfindahl-Hirschman Indices are calculated using the bank-level data used to compile the Central Bank of Ireland's [Credit and Banking Statistics](#).
- Banking and Payments Federation Ireland, [Mortgage Drawdowns and Mortgage Approvals Report](#). Approvals are aggregated to a quarterly basis.

This report has been compiled including published data available at, or before, the **20 October 2017**.



Appendix B: Glossary of Key Terms and Abbreviations

The following are key terms used in this document:

BTL	Buy-To-Let
CBI	Central Bank of Ireland
CC	Consumer Credit
CLTV	Current Loan-to-Value
DSR	Debt-Service-to-Income Ratio
EBA	European Banking Authority
ECB	European Central Bank
FMP	Financial Measures Programme
FTB	First Time Buyer
IO	Interest Only Mortgage
LLD	Loan Level Data held by Central Bank of Ireland
MTD	Monitoring Template Data held by Central Bank of Ireland
NP	Non-performing loan
OL	Other Loan
OLTV	Originating Loan-to-Value Ratio
PDH	Principal Dwelling House
REV	Revolving Loan such as Overdraft or Credit Card
RIL	Retail Investment Loan for Residential Property Purchase
RRE	Residential Real Estate
SSB	Second and Subsequent Borrowers
SVR	Standard Variable Rate
MIR	Mortgage Interest Rate
Tracker	Mortgage interest rate that automatically changes in line with the a contracted policy rate

